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Public Finance Scrutiny Unit

Executive Budget 2016-17: Potential Lines of Questioning

Paper 4 of 4

As part of a four-part series, this Briefing Paper aims to facilitate Assembly scrutiny of the Executive Budget 2016-17, both in plenary and statutory committees. Drawing on previous papers in the series, this Paper sets out potential lines of questioning, which seek to ensure the Executive duly considers Northern Ireland's socio-economic context in its budget allocation decisions, so that departmental ministers are better placed when making decisions about policy and spending throughout 2016-17 and thereafter.

Introduction

On 17 December 2015, the Minister of Finance and Personnel (the Minister) issued a Written Statement regarding the Executive's Budget 2016-17. Therein the Minister noted three distinct factors creating the current need for a single stage one-year budget, i.e.:

- the "Fresh Start" political agreement (dated 17 November 2015);
- the Chancellor's Spending Review announcement (dated 25 November 2015); and,
- Northern Ireland's (NI) government restructuring from 12 to 9 departments, which will occur in May 2016 following the upcoming election.¹ (For more information about this restructuring, refer to RaISe Briefing Papers NIAR 714-15² dated 6 January 2016 and NIAR 780-12³ dated 17 October 2012.)

Within the context of the above, this Briefing Paper is prepared for the Assembly, to support its scrutiny of the Executive Budget 2016-17, both in plenary and statutory committees. Drawing on previous papers in the series, it sets out potential lines of questioning, which seek to ensure the Executive duly considers NI's socio-economic context in its budget allocation decisions, so that departmental ministers are better placed when making decisions about policy and spending throughout 2016-17 and thereafter.

With this in mind:

- Part A provides questions that are relevant to the Committee for Finance and Personnel, which has overarching responsibility in budgetary matters, focussing mainly on strategic and cross-cutting themes; and,
- Part B examines the departmental budget allocations, outlining concerns or interests that the other statutory committees may wish to raise.

For a refresher on budget terminology used throughout this Paper, refer to Appendix A.

¹ DFP (2015) available online at: http://www.niassembly.gov.uk/globalassets/documents/official-reports/written-ministerial-statements/2015-16/dfp_wms_171215.pdf accessed on 18 December 2015

² PFSU (2016) to be made available online at: <http://www.niassembly.gov.uk/assembly-business/research-and-information-service-raise/research-publications-2015/>

³ McCaffrey (2012) available online at: http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2012/assembly_exec_review/16612.pdf accessed on 6 January 2016

Part A: Committee for Finance and Personnel – Potential Questions

Outlined below are questions to support the Committee for Finance and Personnel's consideration of the Executive Budget 2016-17. The questions are set out in the same order of presentation as the Minister of Finance and Personnel's Written Statement dated 17 December 2015:

A1) The 2016-17 Budget Process

A2) Fresh Start

A3) Change Fund

A4) Protections

A5) Financing the Budget

A6) The Northern Ireland Investment Fund

A1) The 2016-17 Budget Process

A1.1 The Written Ministerial Statement stated there was “*on-going engagement between DFP [the Department of Finance and Personnel] and departments and key stakeholders*” in respect of the 2016-17 Budget Process.⁴ **Queries arise about the stated on-going engagement:**

- **How was the “on-going engagement” between the DFP and departments carried out?**
- **What did the engagement between the DFP and departments involve?**
- **Who were the key stakeholders?**
- **How were those stakeholders selected?**
- **Did those stakeholders engage with the DFP and or other departments?**
- **What was the nature of their engagement?**

A1.2 The Written Ministerial Statement specified “[t]here *will be additional flexibilities available to new Ministers in the first Monitoring round of the year*”.⁵ **A number of queries arise about these flexibilities:**

- **What will they entail?**

⁴ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 1 para 4 accessed on 18 December 2015

⁵ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 1 para 6 accessed on 18 December 2015

- **How will Executive Ministers avail of them?**
- **Will similar flexibilities exist in other Monitoring Rounds?**

A1.3 The Written Ministerial Statement noted “...the need for a limited number of allocations to address some of the more significant pressures facing our key public services”.⁶ **Queries arising from these allocations include:**

- **Are they ring-fenced by the Executive?**
- **If not, do any conditions apply to them, to ensure they are used for the stated purposes, e.g. the Department of Health and the Department of Education?**

A1.4 The Written Ministerial Statement provided a table containing the 2016-17 Budget Outcome, which **raises the following question:**⁷

- **How were the baselines calculated for each entry listed in the table?**

A1.5 The Written Ministerial Statement did not mention that the Chancellor’s Spending Review had not included ring-fenced Resource Departmental Expenditure Limits (RDEL). Ring-fenced RDEL includes depreciation and impairments, which are accounting concepts that reflect the cost of capital and assets. Ring-fenced RDEL allocations cannot be applied for general expenditure.⁸

Whilst it is recognised that the Executive has no control over the spending of this allocation due to the “Public Finance Framework” under current devolution arrangements, it is noteworthy that Ring-fenced RDEL has not been included in the Written Ministerial Statement. The PFSU sought clarification around this and the DFP replied. It explained that an exercise is to conclude in January 2015, which is to determine such expenditure for Whitehall departments, and subsequently result in an allocation for NI based on the application of Barnett.⁹ **This raises a query:**

- **Is there any indication from the Treasury as to when this allocation may be made to NI?**

⁶ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 3 para 7 accessed on 18 December 2015

⁷ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 8 Table 1 accessed on 18 December 2015

⁸ Pidgeon (2012) Financial forecasting performance data: scrutiny by committees available online at: http://www.niassembly.gov.uk/globalassets/Documents/RaISe/Publications/2012/finance_personnel/19012.pdf accessed on 4 January 2015

⁹ Email correspondence dated 21 December 2015 from the DFP to the Public Finance Scrutiny Unit (PFSU) within RaISe

A2) Fresh Start

A2.1 The Written Ministerial Statement allocates £10 million (m) to tackle paramilitary activity: but that money is to be held centrally, pending publication of the required strategy.¹⁰ **Queries arise from this £10m allocation:**

- **Which department is to have overall responsibility for drafting, agreeing and implementing this strategy?**
- **What is the related timetable?**

A2.2 The Written Ministerial Statement stated that £25m Resource DEL has been allocated to combatting fraud and error in the new Department for Communities (DfC) on a ring-fenced basis.¹¹ This is despite the Comptroller and Auditor General stating in June 2015 that it is likely to be:¹²

...difficult for SSA [the Social Security Agency] to reduce the estimated rate of fraud and error further from its current level, particularly because of welfare reform changes.

Given the above, this allocation, which is based on projected fraud and error savings, raises questions:

- **Are there contingency plans to secure additional funding if the estimated fraud and error savings are not achieved; and if so, detail those plans?**
- **If there are no contingency plans: what potential issues could arise; and if any, how could they be addressed?**

A2.3 The Written Ministerial Statement allocated £12m for “A Shared Future”, which is to be held centrally until appropriate allocations are identified.¹³ **Queries arise from this £12m allocation:**

- **Which department will have overall responsibility for identifying the allocations that are to be made?**
- **How will the identification process be governed, e.g. is there or is there to be a policy and a related procedure?**
- **How will competing bids, if any, be prioritised?**

A2.4 The Written Ministerial Statement allocated £30m for “Dealing with the Past”, which is to be held centrally until agreement is reached on how the issue is to be

¹⁰ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 2 para 1 accessed on 18 December 2015

¹¹ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 2 para 1 accessed on 18 December 2015

¹² <https://www.dsdni.gov.uk/sites/default/files/publications/dsd/dsd-resource-accounts-2015.pdf> accessed on 18 December 2015

¹³ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 2 para 1 accessed on 18 December 2015

addressed.¹⁴ **Again queries arise due to a lack of detail about this £30m allocation:**

- **Has a process been agreed to progress discussion about “Dealing with the Past”, which is aimed to enable agreement on how it may be achieved, including specification of how the £30m is to be distributed?**
- **Which department is to be responsible for this process?**
- **If so, is there a related timetable?**
- **If not, what is planned to advance this area of work?**

A2.5 The Written Ministerial Statement did not explicitly refer to a number of bodies that are to be set up following the Fresh Start political agreement, e.g. a Fiscal Council and a civic advisory panel.¹⁵ **Its absence raises queries:**

- **Will such bodies be provided for in the Executive Budget 2016-17?**
- **If so, detail how.**
- **If not:**
 - **What is the timeframe for the introduction of each body?**
 - **Which department will be responsible for each body?**
 - **What funding is anticipated to be made available to each body? How will the independence of each body be protected, in particular the Fiscal Council’s?**

A3) Change Fund

A3.1 The Written Ministerial Statement stated “...initial indications are that this funding [Change Fund] achieves worthwhile results”.¹⁶ **The absence of additional explanation about these initial indications raises a question:**

- **What are those initial indications, including specification of the results, findings, underlying rationales and any other relevant information in this regard?**

A3.2 The Written Ministerial Statement stated that:¹⁷

¹⁴ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 2 para 1 accessed on 18 December 2015

¹⁵ NI Executive (2015) available online at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479116/A_Fresh_Start_-_The_Stormont_Agreement_and_Implementation_Plan_-_Final_Version_20_Nov_2015_for_PDF.pdf Page 26 para 7& Page 38 para 3 accessed on 18 December 2015

¹⁶ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 3 para 3 accessed on 18 December 2015

...£1.5m is to be held centrally for allocation to the Asset Management Unit to provide an enabling fund for the work they are progressing in delivering the estate rationalisation as required by the Executive's Asset Management Strategy.

Looking back to the Budget 2015-16, it stated:¹⁸

...the Asset Management Unit will deliver £50 million of capital receipts in 2015-16. This has been factored into the overall Capital DEL position.

In light of the above, the anticipated Change Fund receipts raise questions:

- **Has the £50 m 2015-16 target been reached?**
- **If not:**
 - **How much was raised in receipts?**
 - **How were relevant socio-economic factors considered when undertaking work and making decisions in this area in 2015-16?**
 - **Why was this target not reached?**
 - **What lessons were learned from work and decisions taken in this area in 2015-16?**
 - **If any, how will it be ensured that those lessons inform future work and decisions?**

A3.3 The Written Ministerial Statement noted:¹⁹

...a further £4.5 million should be held for allocation to a number of Executive agreed cross cutting reform projects that will deliver significant savings on behalf of the wider NI Civil Service.

The following queries arise about the £4.m allocation:

- What are these cross cutting reform projects?
- What does the concept “significant savings” mean in this context, relative to the stated £4.5m allocation, i.e. will such savings be more than double this £4.5 m allocation, or more, or less?

¹⁷ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 3 para 4 accessed on 18 December 2015

¹⁸ DFP (2014) available online at: <http://www.northernireland.gov.uk/budget-2015-16.pdf> accessed on 18 December 2015

¹⁹ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 3 para 5 accessed on 18 December 2015

A4) Protections

A4.1 The Written Ministerial Statement specified that the level of reductions to “*the core police budget will be limited to 2%*”.²⁰ **The absence of additional explanation about these reductions raises questions:**

- **What costs are included in the “core police budget”?**
- **Detail which are not?**

A4.2 The Written Ministerial Statement stated that the Northern Ireland Audit Office (NIAO), the Assembly Commission and the Ombudsman/Commissioner of Complaints are to be “...*considered exempt or partially exempt from the planned baseline reductions*”.²¹ **Again, the absence of additional explanation about these exemptions raises queries:**

- **Why and how were decisions made to exempt or partially exempt complaints from the planned baseline reduction? Please detail the rationale.**
- **How were such decisions translated into the stated budget allocation? Please explain the rationale.**

A5) Financing the Budget

A5.1 Revenue Raising Policy Levers

The previous Minister of Finance and Personnel mentioned in his statement on the Budget 2015-16 that:

*...our economy and therefore our tax base isn't strong enough to stand on its own.*²²

At present there is a fiscal deficit in NI of approximately £9.2 billion.²³

Yet the Written Ministerial Statement on the Budget 2016-17 does not mention any additional revenue raising measures, which prompts a number of queries given NI's current socio-economic context, including:

- **Did the Executive consider the use of additional revenue raising measures in the context of its Budget 2016-17 or beyond that?**

²⁰ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 4 para 3 accessed on 18 December 2015

²¹ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 4 para 7 accessed on 18 December 2015

²² DFP (2014) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/draft-budget-for-2015-2016.pdf> accessed on 18 December 2015

²³ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/Net%20Fiscal%20Balance%20Report%202012-13%20and%202013-14.pdf> accessed on 4 January 2015

- **If so, what did these considerations entail? Please specify.**
- **Detail the Executive's rationale for its decision to rule out such measures, e.g. revenue raising measures such as:**
 - **An increase in the regional rate above the level of inflation?**
 - **An increase in the cap on maximum domestic rate value limits?**
 - **Other, such as introducing water charges, road tolls, etc?**

It is noteworthy in this context if the Assembly actually chooses to exercise its power to legislate for corporation tax (after Westminster's anticipated commencement of this power), whatever revenue raised by this tax would go directly to the Treasury, not the Executive.

A5.2 Borrowing

The Fresh Start political agreement included flexibility to use up to £200m of Reinvestment and Reform Initiative (RRI) borrowing to fund Voluntary Exit Schemes (VES) in the public sector.

This is against the backdrop of NI's outstanding debt (i.e. loans drawn down less principal repaid) in respect of RRI loans is estimated to be £1,834m at the end of 2015-16.²⁴

With the above in mind, the following queries arise about the proposed borrowing in the Executive Budget 2016-17:

- **Is it prudent to fund redundancy or other restructuring measures through the borrowing proposed by the Executive, which will serve to increase existing debt?**
- **What are the anticipated economic impacts of this borrowing approach?**
- **Are there any capital projects currently in the pipeline that have not received funding to date due to the Executive's proposed allocation of RRI borrowing to VES in 2016-17?**

The Written Ministerial Statement noted that:²⁵

Allocations of £117.6 million are being made to departments in Budget 2016-17 in respect of their proposed schemes.

It also confirms that funding not used for VES-related schemes in 2016-17 may be used for other capital projects that are suitable for borrowing. Of the £82.4m not

²⁴ DFP (2014) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/draft-budget-for-2015-2016.pdf> accessed on 18 December 2015

²⁵ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 5 para 2 accessed on 18 December 2015

allocated for VES projects in 2016-17, only £25m of this funding is to be used for capital projects; and the remaining £57m is to be available for allocation in June 2016 monitoring.²⁶ **This raises a question:**

- **Given £200m was mentioned in the Fresh Start political agreement, but the Executive allocated only £117.6m in its Budget 2016-17, what planning is in place to ensure that the non-allocated remainder is fully used for capital projects?**

A6) The Northern Ireland Investment Fund

A6.1 The Written Ministerial Statement stated that the NI Investment Fund is not to be operational until the autumn of 2016.²⁷

This was said in the context of the former Minister's January 2015 Budget document, which stated that:²⁸

The Executive has agreed to commission a study into the feasibility and extent of this (Investment) Fund, which is envisaged to take 4-5 months to complete.

The Written Ministerial Statement also explained that the feasibility study was undertaken to determine the optimum structure, scale and investment strategy for the Investment Fund. It "...considered four key sectors, which included urban regeneration, including Grade A office space; energy efficiency; telecoms and social housing".²⁹

A number of queries arise about this allocation:

- **What was the rationale (including evidential basis) for the selection of those four sectors?**
- **Was market testing carried out prior to limiting the study to only four sectors?**
- **What are the anticipated economic impacts, if any, that are to be delivered by this allocation, according to the Executive?**
- **Why did the Executive decide to limit the Investment Fund's scope at what appears to be an early stage in the development of the Fund?**

²⁶ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 5 para 1 accessed on 18 December 2015

²⁷ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 6 para 3-6 accessed on 18 December 2015

²⁸ DFP (2015) available online at: <http://www.northernireland.gov.uk/budget-2015-16.pdf> accessed on 18 December 2015.

²⁹ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 6 para 4 accessed on 18 December 2015

A6.2 The Budget 2015-16 further stated that the feasibility study would include details of an Investment Strategy.³⁰ **In the absence of further detail, questions arise:**

- **Has the Investment Strategy been drafted?**
- **If not, which department is to have overall responsibility for its drafting?**

A6.3 £40.9m – in the form of Financial Transactions Capital (FTC) - was set aside in the Executive Budget 2015-16 “*to provide a Balance for the Fund*”.³¹

However, the current Minister of Finance explained in her Statement that contingency plans are in place for the allocation of £55.8m (in FTC)³² *via* the Investment Fund.³³

But now the allocation of £55.8m,³⁴ due to previous slippages in the timeframe for introducing the Investment Fund, raises a number of queries:

- **What planning is in place to avoid future slippage in relation to the Investment Fund?**
- **How is it envisioned to progress investment under the Investment Fund in the four stated sectors? Please specify, e.g., key targets (economic and other) and related timeframes and interdependencies?**
- **What on-going work is advancing on the Investment Fund; what would that work involve in terms of “*additional market testing to refine the types of projects that the Fund should support*”?³⁵**
- **How does this additional market testing ensure due consideration is given to potential economic implications?**
- **Which department is anticipated to have overarching responsibility to take the Investment Fund forward?**

A6.4 The procurement process for the Investment Fund manager is due to commence early in the 2016-17 financial year.³⁶ **Queries arising about this process are highlighted below:**

- **Which department is to have overall responsibility for the procurement process?**

³⁰ DFP (2015) available online at: <http://www.northernireland.gov.uk/budget-2015-16.pdf> accessed on 18 December 2015.

³¹ DFP (2015) available online at: <http://www.northernireland.gov.uk/budget-2015-16.pdf> accessed on 18 December 2015.

³² DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 6 para 2 accessed on 18 December 2015

³³ DFP (2014) available online at: <http://www.northernireland.gov.uk/budget-2015-16.pdf> accessed on 18 December 2015

³⁴ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 6 para 2 accessed on 18 December 2015

³⁵ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 6 para 5 accessed on 18 December 2015

³⁶ DFP (2015) available online at: <https://www.dfpni.gov.uk/sites/default/files/publications/dfp/budget%2016-17-ministerial%20statement.pdf> Page 6 para 6 accessed on 18 December 2015

- **Are there contingency plans to manage the Investment Fund if no suitable manager is appointed?**

Part B: Statutory Committees - Potential Questions

Outlined below are questions that each statutory committee may wish to rely on when scrutinising the allocations proposed by the Executive in its Budget 2016-17, as explained in the Written Ministerial Statement dated 17 December 2015.

B1) Budget allocations

B1.1 The Executive Budget 2016-17 allocates non-ringfenced Resource and Capital DEL to individual departments.

This raises a number of queries for departmental ministers:

- **What proportion of its allocated budget for each category is already contractually committed?**
- **What proportion of its allocated budget for each category is already committed for other legal reasons?**
- **What proportion of its allocated budget remains unallocated, allowing for the exercise of ministerial discretion/prioritisation?**
- **Has a decision been made by the minister about how the remaining resources are to be prioritised by the department?**
- **If so, what criteria does the departmental minister intend to apply; and, what are the anticipated economic implications of that criteria's application?**
- **What proportion of the departmental Budget is transferring to a different department under current government restructuring; and, how much of that part of the Budget is already committed/allocated?**
- **Which assets are transferring under the restructuring exercise; and, what are their current condition, maintenance schedule and useful life?**
- **How are the allocations that are to be made centrally by the Executive to the Flagship projects expected to impact on individual ministers and their Departments' ability to prioritise their capital budgets?**

Appendix A – Definitions of Budget Terms

To facilitate, budget terms repeatedly used throughout this Briefing Paper are explained below:

- **Departmental Expenditure Limits (DEL):**

DEL is a spending aggregate that sets firm expenditure limits for a three or four year period. DEL includes that expenditure which is generally within the department's control and can be managed within multi-year limits. These limits are set at a Northern Ireland level by UK Spending Reviews. The NI Budget then sets out individual NI departments' DEL controls which have been determined through the local Budget process.

DEL is split into Resource DEL (also known as current expenditure) which reflects the ongoing cost of providing services and Capital DEL which reflects investment in assets which will provide, or underpin, services in the longer term. Within the Resource DEL, HM Treasury impose separate controls on:

Depreciation/Impairments

Student Loan subsidy Impairment

- **Ring-Fenced:**

Expenditure that is specific to a particular policy or programme and cannot be used for any other purpose without the prior agreement. A ring-fence may be imposed by HM Treasury or locally by the Executive.³⁷

³⁷<http://www.dfpni.gov.uk/ced-public-expenditure-terminology.pdf> accessed on 18 December 2015